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Small Firms' Doubts About Outlook Raise Red Flag For Jobs

By SCOTT STODDARD, INVESTOR'S BUSINESS DAILY Posted 02/04/2010 07:10 PM ET



Mahesh Sahni, of Worcester, Mass., left, holds his resume while speaking with a Prudential recruiter at a Boston job fair Tuesday, Feb. 2, 2010....

Marlin Steel Wire is adding staff on expectations of growing sales at home and abroad. But other small businesses aren't as confident, raising concerns that the unemployment rate will remain high for months if not years.

Companies with fewer than 500 employees have generated 64% of all new jobs the past 15 years, according to the Small Business Administration.

They hold the key to jump-starting the job market and bringing down joblessness, currently at a near 26-year high of 10%.

Tight credit, weak sales and worries that government policies could increase costs have put small businesses in a sour mood. The National Federation of Independent Business' small business optimism index fell to a five-month low in December.

"I'm not expecting to see small business confidence pick up anytime soon," said Mark Vitner, an economist at Wells Fargo Securities. "I think that we have to remove some of the uncertainty that's present in the economy before we see hiring pick up."

Businesses that cater to hard-hit U.S. consumers have suffered the most since the downturn began in December 2007.

Some Positive Signs

Baltimore-based [Marlin Steel Wire](#), a maker of [steel baskets](#) whose customers include [big pharmaceutical and manufacturing firms](#), is adding to its staff of 33 after posting record revenue for the fifth straight year in 2009. Many big companies have benefited as governments around the world enacted stimulus programs to battle the economic slump.

"We're very bullish on the future," said company President Drew Greenblatt. "Even though we had all this carnage around us we still grew. With the economy getting stronger we're going to have a banner year."

NFIB's small-business optimism index fell 0.3 point in December to 88, the lowest level since July. A net minus 2% of owners plan to create new jobs, up one point from November. It was the 13th negative reading in 14 months, much worse than in the previous two recessions.

"You don't need inventory, you don't need to spend money on capital goods and you don't need to hire anybody because you don't have customers. That's the biggest problem right now," said Bill Dunkelberg, NFIB's chief economist.

The net percentage of companies expecting sales to improve rose a point to minus 1%, the 22nd straight negative reading.

Meanwhile, small businesses worry that their costs will rise if Congress approves a government health care overhaul.

Job Growth Still Distant

The nonpartisan Congressional Budget Office said last month that the jobless rate won't likely drop below 8% before 2012 unless Congress takes further steps to boost the economy.

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